

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 DODE-00 PM-03 H-02 L-02 NSC-05

PA-01 PRS-01 SS-15 USIA-06 CAB-02 DOTE-00 FAA-00 /086 W

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R 240959Z APR 75

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 2639

INFO AMCONSUL ZAGREB UNN

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PASS EXIM BANK

E.O. 11652 : N/A

TAGS: EAIR, EFIN, YO

SUBJ: JAT STABILIZATION PROGRAM

SUMMARY: JAT SOURCE HAS UNOFFICIALLY TOLD EMBASSY THAT AIRLINE LOST BETWEEN SEVEN AND TEN MILLION DOLLARS IN 1974, DESPITE HEALTHY INCREASES IN PASSENGER/CARGO BUSINESS, AND HAS CONSEQUENTLY ADOPTED INTERNAL STABILIZATION PROGRAM AND IS SEEKING ASSISTANCE FROM REPUBLICS AND PROVINCES. SOURCE IS CONFIDENT JAT WILL EMERGE AS STRONGER, MORE EFFICIENT AIRLINE. HE STRESSED LOSS HAS NO EFFECT ON JAT'S ABILITY MEET EXTERNAL OBLIGATIONS. END SUMMARY.

1. HIGH LEVEL JAT OFFICIAL TOLD EMBASSY THAT AIRLINE LOST BETWEEN SEVEN AND TEN MILLION DOLLARS IN 1974. HE ASSIGNED RESPONSIBILITY FOR ABOUT THREE MILLION DOLLARS OF LOSS TO DECEMBER 1974 FEC REQUIREMENT THAT ALL FIRMS INCREASE DEPRECIATION CHARGES FOR FIXED ASSETS BY 26 PERCENT. HE SAID BASIC WEAKNESS IN JAT FINANCIAL STRUCTURE IS LOW  
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DOMESTIC AIR FARES. PUBLIC ACCOUNTING SERVICE IS EXPECTED

TO RELEASE FINAL FIGURES ON LOSS WITH ANALYSIS OF CAUSES IN ABOUT TWO WEEKS, AT WHICH TIME JAT PLANS PROVIDE THIS INFORMATION TO EXIM AND OTHER CREDITORS.

2. IN EFFORT CUT COSTS IN 1975, JAT HAS ADOPTED STABILIZATION PROGRAM, COPY OF WHICH HAS BEEN GIVEN INFORMALLY TO EMBASSY. ECONOMY MEASURES INCLUDE (A) CURBING UNNECESSARY SPENDING WITH GOAL OF REDUCING PLANNED 1975 EXPENDITURES BY TEN PERCENT;(B) HALTING NEW EMPLOYMENT, EXCEPT FOR PILOTS AND MECHANICS, AND (C) ENDING OF PAID OVERTIME WORK. JAT EMPLOYEES ARE CURRENTLY RECEIVING ONLY EIGHT PERCENT OF NORMAL PAY, REPORTEDLY BECAUSE WORKERS VOTED THEMSELVES 1974 VACATION BONUS WITH QUALIFICATION THEY WOULD RETURN IT IN EVENT COMPANY SUFFERED LOSS.

3. ACCORDING SOURCE JAT HAS BEEN ASSURED BY ITS BANKING PARTNERS THAT THEY WILL COVER LOSS AND JAT IS ALSO SEEKING FINANCIAL ASSISTANCE FROM REPUBLICS AND PROVINCES. MORE IMPORTANTLY, JAT EXPECTS PREFERENTIAL TAX TREATMENT, REVISION OF CUSTOMS DUTIES ON IMPORTS OF AIRCRAFT AND PARTS, AND OTHER FAVORABLE SUPPORT FROM GOY. THE FEC HAS BEEN REQUESTED TO ALLOW INCREASES ON DOMESTIC AIR FARES. ACTIVE GOVERNMENT SUPPORT IS REPORTEDLY NOT NEEDED BECAUSE OF 1974'S LOSS, BUT IS IMPORTANT FOR JAT'S FUTURE DEVELOPMENT PLANS.

4. IN DISCUSSING SITUATION JAT SOURCE EMPHASIZED THE AIRLINE IS GROWING, PASSENGER TRAFFIC INCREASED TEN TO FIFTEEN PERCENT IN 1974, AND SIMILAR GROWTH IS PROJECTED IN 1975. HE MAINTAINED ORGANIZATION, DESPITE LOSS, IS STRONG AND VIGOROUS, AND DESCRIBED THREE MILLION DOLLAR INCREASE IN DEPRECIATION AS INVESTMENT IN JAT'S FUTURE, EVEN THOUGH IT CAME FROM CREDIT SIDE OF LEDGER IN 1974.

5. JAT SOURCE STRESSED 1974 BALANCE SHEET HAS NO REPEAT NO IMPLICATIONS FOR ABILITY TO MEET INTERNATIONAL CREDIT OBLIGATIONS.

6. COMMENT: LOSS WAS APPARENTLY SURPRISE EVEN TO JAT WHICH HAD PROJECTED SMALL PROFIT ON BASIS NINE-MONTH LIMITED OFFICIAL USE

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DATA. STABILIZATION PROGRAM AND OTHER ECONOMY MEASURES SHOULD HAVE POSITIVE EFFECT ON 1975 LEVEL OF EXPENDITURES, AND THE EXPECTATION OF FAVORABLE POLITICAL SUPPORT VIA TAX BREAKS, CUSTOM DUTY REVISION, FARE INCREASES, ETC., MAY PORTEND SIGNIFICANT CHANGE IN JAT'S RELATIONS WITH GOY AND REPUBLICS AND PROVINCES, AND COULD PROVIDE BOOST TO JAT'S MEDIUM TERM DEVELOPMENT PLANS.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FINANCIAL STABILITY, BUSINESS LOSSES  
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**Copy:** SINGLE  
**Draft Date:** 24 APR 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Authority:** RowellE0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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